Anglo-Canadian Telephone Company

715 VICTORIA SQUARE, MONTREAL, QUEBEC H2Y 2H7

ANNUAL REPORT 1976

ANGLO-CANADIAN TELEPHONE COMPANY (Incorporated under the Quebec Companies Act)

Directors

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ROGER CHARBONNEAU
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WILLIAM H. HARRISON
WILFRED R. JOYCE
JOEL P. MELLIS

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President

WILFRED R. JOYCE
Vice-President, Secretary and Treasurer

JOEL P. MELLIS
Assistant Secretary

RICHARD F. HARDY
Assistant Treasurer

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CUMULATIVE PREFERRED STOCK
The Royal Trust Company, Montreal, Quebec, Canada
Co-Transfer and Co-Registrar Offices at
Toronto, Winnipeg, Vancouver, Saint John, Halifax and Calgary

COMMON STOCK
The Company

Si vous préférez recevoir ce rapport en français, veuillez vous adresser au secrétaire,
La Compagnie de Téléphone Anglo-Canadienne, 715 Victoria Square, Montréal, Québec H2Y 2H7

To the Shareholders:

March 21, 1977

The year 1976 was one of strong growth in revenues and moderate growth in net income for Anglo-Canadian Telephone Company (Anglo). The effects of inflation on operating costs and interest expense were the principal factors causing the growth of net income to lag behind revenue growth.

Consolidated operating revenues for 1976 increased over the previous year by 19.6% to $532.4 million, while consolidated net income rose to $25 million for a gain of 5.8% over 1975. The increase in revenues reflected approved tariff increases for our Canadian subsidiaries and increased numbers of telephones served and greater long distance calling volumes for our Dominican Republic subsidiary as well as our Canadian subsidiaries. However, despite the continuation of vigorous programs of cost control, operating expenses in 1976 were 22.3% higher than those of the previous year. Interest expense and preferred dividends of subsidiaries also increased substantially.

Expansion and improvement of facilities to meet the growth and service upgrading requirements of our telephone operating subsidiaries required expenditures of $351 million in 1976. Such expenditures in 1975 amounted to $295 million and for 1977 are estimated at $366 million.

The number of telephones in service increased 5.6% during 1976 to a total of 1,895,297 at the end of the year.

British Columbia Telephone Company, 51% owned by Anglo, and its subsidiary, Okanagan Telephone Company, reported 1,543,310 telephones in service at the end of 1976, a gain of 4.8% for the year. In 1976, gross expenditures on telephone plant and equipment totalled $301.4 million, an increase of approximately 31% over the previous year, yet the resulting increased facilities were constructed, operated and maintained with a relative increase in employees of less than 5%. Operating revenues of $435.8 million in 1976 were up 20.8% over the prior year, but increased operating costs held the gain in net income available for ordinary shares to 7.3% exclusive of the effect of the extraordinary item in 1975. Earnings per average ordinary share amounted to $1.48 compared with $1.38 per share earned in 1975 without the extraordinary item. These 1976 earnings represented a return on average ordinary share equity of 11.4%, down from 11.6% earned in 1975.

Québec-Téléphone, 54% owned by Anglo, celebrated its 50th year in the telecommunication business during 1976. Telephones in service increased during the year to 230,023, a gain of 5.9% over 1975. Operating revenues increased

14.4% to $64.7 million and net income available for ordinary shares was $5.1 million in 1976 -- about the same as 1975. Earnings per share amounted to $2.16 in 1976 compared with $2.18 in the prior year. Gross expenditures in new plant and equipment amounted to approximately $32 million in 1976 and a continued high level of expenditures is expected to be required in 1977.

Compania Dominicana de Telefonos, C. por A. a wholly-owned subsidiary of Anglo, continued to face a constant demand for expanded telephone service within the Dominican Republic. Telephones in service at the end of 1976 showed an increase of 16.8% over the prior year to a total of 121,964. Gross expenditures on new plant and equipment amounted to $17.4 million during 1976, and at year-end gross telephone plant investment exceeded $103 million. Operating revenues increased by 14.2% to $26.6 million, while net income of $5.6 million was 7.9% lower than 1975. As a result of increased costs of labour and materials and the high cost of interest on capital borrowed to meet the demands for expansion, the company's return on investment has declined markedly in the past two years. Net income declined by more than 15% from 1974 to 1976, while the capital employed in the business was increased by more than 26% during that same two-year period. Management is devoting its utmost attention to the urgent need for increased tariffs in order to continue to provide good telephone service in the Dominican Republic.

In closing this review of the year 1976 for Anglo-Canadian Telephone Company, we wish to acknowledge the loyal hard work of the managements and employees of our subsidiary companies. Our record of continued earnings growth through difficult periods attests to their skill and dedication.

On behalf of the Board of Directors

William J. Henson

President

Consolidated Balance Sheets
December 31, 1976 and 1975

Assets

	1976	1975
	(Thousands of dollars)	
FIXED ASSETS:		
Telephone plant, at cost	$2,083,880	$1,790,775
Accumulated depreciation (Note 1)	(425,810)	(374,668)
	1,658,070	1,416,107
Cost of investments in subsidiaries in excess of underlying book value as of the dates of acquisition	33,165	33,457
	1,691,235	1,449,564
INVESTMENTS AND OTHER ASSETS, at cost	4,801	4,834
CURRENT ASSETS:		
Cash and short-term deposits	6,142	7,040
Receivables (including unbilled revenues)	71,577	80,375
Materials and supplies, at average cost	32,029	25,873
Prepayments and other	6,684	7,138
	116,432	120,426
DEFERRED CHARGES:		
Unamortized cost of issuing long-term debt	1,742	1,748
Other deferred charges (Note 1)	2,468	2,223
	4,210	3,971
	$1,816,678	$1,578,795

Signed on behalf of the Board:

ROGER CHARBONNEAU, Director WILLIAM H. HARRISON, Director

The accompanying notes form an integral part of these consolidated financial statements.

Shareholders' Interest and Liabilities

	1976	1975
	(Thousands of dollars)	
COMMON SHARE EQUITY:		
Common shares (Note 2)	$ 12,037	$ 12,037
Premium on common shares	34,218	34,218
Retained earnings (Note 3)	167,932	145,315
Anglo-Canadian common share equity	214,187	191,570
Minority interest in subsidiaries	139,950	134,748
Total common share equity	354,137	326,318
PREFERRED AND PREFERENCE SHARES (See page 8):		
Anglo-Canadian preferred shares	37,500	37,500
Subsidiaries' preference and preferred shares	198,879	170,615
Total preferred and preference shares	236,379	208,115
Total shareholders' interest	590,516	534,433
LONG-TERM DEBT (See page 8)	734,882	639,898
SHORT-TERM OBLIGATIONS (due within one year) (Note 1):		
Notes payable to banks (average interest rates of 9.52% and 9.41%, respectively)	75,695	59,093
Commercial paper (average interest rates of 8.80% and 9.28%, respectively)	53,793	49,070
Current portion of long-term debt	3,287	2,510
	132,775	110,673
CURRENT LIABILITIES (excluding short-term obligations):		
Accounts payable and accrued liabilities	54,853	41,013
Due to affiliates	17,814	14,955
Advance billings and customer deposits	13,528	11,626
Dividends	6,016	4,899
Accrued interest	17,085	14,604
Accrued taxes	6,581	1,058
	115,877	88,155
DEFERRED CREDITS (Note 1)	242,628	205,636
CONSTRUCTION PROGRAMS AND COMMITMENTS (Notes 1 and 4)		
	$1,816,678	$1,578,795

Consolidated Statements of Income

For the years ended December 31, 1976 and 1975

	1976	1975
	(Thousands of dollars)	
OPERATING REVENUES:		
Local service	$222,510	$184,953
Toll service	291,526	244,170
Miscellaneous	24,554	21,125
Provision for uncollectible accounts	(6,144)	(5,241)
	532,446	445,007
OPERATING EXPENSES AND TAXES:		
Maintenance	109,461	90,631
Depreciation (Note 1)	99,610	79,707
Traffic	39,104	35,690
Commercial	36,180	30,727
General, administrative and other	67,231	50,851
General taxes	25,289	20,532
Provision for Federal and Provincial income taxes	45,580	41,406
	422,455	349,544
Operating income	109,991	95,463
MISCELLANEOUS INCOME — NET (Note 1)	12,549	9,849
	122,540	105,312
INTEREST AND OTHER DEDUCTIONS:		
Interest on long-term debt	54,874	47,013
Other interest and amortization of discount and cost of issuing long-term debt	13,556	9,673
	68,430	56,686
Income before outside shareholders' interest	54,110	48,626
OUTSIDE SHAREHOLDERS' INTEREST:		
Preference and preferred dividends of subsidiaries	13,099	9,429
Minority interest in net income of subsidiaries	15,995	15,543
	29,094	24,972
Consolidated net income	$ 25,016	$ 23,654

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statements of Retained Earnings

For the years ended December 31, 1976 and 1975

	1976	1975
	(Thousands of dollars)	
BALANCE AT BEGINNING OF YEAR	$145,315	$124,168
ADD—		
Consolidated net income	25,016	23,654
	170,331	147,822
DEDUCT —		
Dividends paid on Cumulative Preferred shares		
$4^1/_2$% Cumulative Preferred shares	281	281
$2.90 Cumulative Preferred shares	363	363
$2.65 Cumulative Preferred shares	848	848
$3.15 Cumulative Preferred shares	567	567
Share issue expenses of subsidiaries	340	448
	2,399	2,507
BALANCE AT END OF YEAR (Note 3)	$167,932	$145,315

Consolidated Statements of Source of Funds used for Construction

For the years ended December 31, 1976 and 1975

	1976	1975
	(Thousands of dollars)	
SOURCE OF FUNDS:		
From operations		
Consolidated net income	$ 25,016	$ 23,654
Less — Dividends paid on preferred shares	(2,059)	(2,059)
	22,957	21,595
Add (deduct) — Expenses not requiring cash outlay:		
Depreciation	99,610	79,707
Deferred income taxes	37,457	50,107
Other — net	(3,315)	2,788
Funds available from operations	156,709	154,197
Increase in minority interest in subsidiaries	5,202	5,949
Sale or issuance of subsidiaries' preference and preferred shares to outsiders, net of redemptions	28,264	34,113
Sale or issuance of long-term debt, net of redemptions	94,984	143,084
Increase (decrease) in short-term obligations	22,102	(30,547)
(Increase) decrease in deferred charges	(239)	1,186
Decrease (increase) in working capital	31,716	(16,683)
Other uses — net	(1,089)	(1,670)
CAPITAL EXPENDITURES	$337,649	$289,629

The accompanying notes form an integral part of these consolidated financial statements.

ANGLO-CANADIAN TELEPHONE COMPANY and Subsidiaries

Summary of Preferred and Preference Shares and Long-Term Debt

December 31, 1976 and 1975

	Shares	1976	1975
		(Thousands of dollars)	
PREFERRED AND PREFERENCE SHARES:			
Anglo-Canadian Preferred shares, par value $50 per share, cumulative dividend. Authorized 1,000,000 shares redeemable at $53 per share; outstanding 750,000 shares:			
$4^1/_2$% Cumulative Preferred shares	125,000	$ 6,250	$ 6,250
$2.90 Cumulative Preferred shares	125,000	6,250	6,250
$2.65 Cumulative Preferred shares	320,000	16,000	16,000
$3.15 Cumulative Preferred shares	180,000	9,000	9,000
		37,500	37,500
Subsidiaries' Preference and Preferred shares:			
British Columbia Telephone Company			
6% Cumulative Preference and Preferred shares ($100 par value)		5,500	5,500
$4^3/_8$% to $5^3/_4$% Cumulative Redeemable Preferred shares ($100 par value)		48,000	48,000
4.84% to 10.16% Cumulative Redeemable Preferred shares ($25 par value)		92,000	95,300
$2.32 Cumulative Redeemable Convertible Subordinate Preferred shares ($25 par value)		29,026	—
Okanagan Telephone Company (Subsidiary of British Columbia Telephone Company)			
40¢ Cumulative Redeemable Preferred shares ($9 par value) ..		450	450
Québec-Téléphone			
5% Cumulative Sinking Fund Redeemable Preferred shares ($20 par value)		1,585	1,710
$4^3/_4$% to $9^3/_4$% Cumulative Redeemable Preferred shares ($20 par value)		18,860	19,628
6.20% and $1.68 Cumulative Redeemable Convertible Subordinate Preferred shares ($15 par value)		3,236	27
Premium on Subordinate Preferred shares		222	—
		198,879	170,615
Total preferred and preference shares		$236,379	$208,115
LONG-TERM DEBT:			
Anglo-Canadian Telephone Company			
$6^1/_2$%, Sinking Fund Debentures, Series A, due 1983		$ 1,560	$ 1,820
British Columbia Telephone Company			
First Mortgage Bonds 5% to 11%, due 1978 - 2001		622,289	542,372
Okanagan Telephone Company (Subsidiary of British Columbia Telephone Company)			
General Mortgage Sinking Fund Bonds $5^3/_4$% to $6^1/_2$%, due 1978 - 1986		4,546	5,048
Québec-Téléphone			
First Mortgage Redeemable Sinking Fund Bonds $5^1/_2$% to $11^7/_8$% due, 1982 - 1995		68,186	68,746
General Mortgage Sinking Fund Bonds $5^3/_4$% due 1983		3,950	6,500
Compania Dominicana de Telefonos, C. por A.			
Notes payable 8% to $11^3/_4$%, due 1981 - 1987		43,046	23,530
Total principal amount		743,577	648,016
Less - Unamortized discount on long-term debt		8,695	8,118
Total long-term debt		$734,882	$639,898

The accompanying notes form an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

For the years ended December 31, 1976 and 1975

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Principles of consolidation

All subsidiaries have been included in the consolidated financial statements. Dominican pesos have been translated at par with the Canadian dollar.

The subsidiaries and equity ownership at December 31, 1976 are as follows:	Percent Owned
British Columbia Telephone Company	50.82
Compania Dominicana de Telefonos, C. por A.	100.00
Dominion Directory Company Limited	100.00
Québec-Téléphone	54.28
York Investment Co. Ltd.	100.00

Compania Dominicana de Telefonos, C. por A. is a telephone operating company in the Dominican Republic. The Company's investment in and amounts due from Compania Dominicana at December 31, 1976 and 1975 amounted to $9,854,000 and $14,295,000 respectively, and the net assets of Compania Dominicana at these dates were $48,428,000 and $43,637,000, respectively. Net income of Compania Dominicana was $5,624,000 in 1976 and $6,105,000 in 1975.

Under the terms of the original contract made with the Government of the Dominican Republic, the Dominican Government has the right to acquire, at any time, the telephone, telegraph and radiotelegraph property and related assets and liabilities of Compania Dominicana at underlying book value.

b) Depreciation of Telephone Plant

Depreciation is provided on the straight-line method, for book purposes, based on engineering studies of the estimated lives and salvage value of the various classes of depreciable property.

c) Short-term obligations

The short-term obligations have been used, directly or indirectly, to finance the subsidiaries' construction programs. These short-term obligations (including currently maturing long-term debt) have been excluded from current liabilities because it is expected that they will in time be refinanced by issues of long-term debt or equity capital. It is also expected that the companies will continue to enter into new short-term obligations as the construction programs continue.

d) Deferred credits

Certain subsidiaries are presently claiming for income tax purposes capital cost allowance in excess of depreciation charged to the accounts and other expenditures which are capitalized in their accounts. The resulting reduction in income taxes is deferred. The balance of taxes deferred by the subsidiaries included in Deferred Credits amounted to $241,176,000 and $203,720,000 as of December 31, 1976 and 1975, respectively.

e) Other deferred charges

These charges represent purchases of materials, salaries, and other items which will be distributed principally to the telephone plant in the next year.

f) Allowance for funds used during construction

Miscellaneous income—net includes a credit for the allowance for funds used during construction of $9,703,000 in 1976 and $6,441,000 in 1975.

g) Pension plans

All companies maintain funded pension plans for the benefit of substantially all employees. The actuarially determined aggregate cost of maintaining the pension plans was $18,145,000 in 1976 and $11,480,000 in 1975, respectively, which includes $4,757,000 in 1976 and $1,414,000 in 1975, respectively, for the amortization of past service costs (over periods not exceeding 25 years from January 1, 1965) and of experience deficiencies. Such amounts were paid to trustees. The pension fund assets exceeded the actuarially computed value of the vested pension benefits of the plans at December 31, 1975, the latest valuation date. The present value of the estimated unfunded costs amounted to approximately $20,033,000 at December 31, 1976.

2. Common Shares, $10 par Value

Authorized — 1,700,000 shares

Issued and outstanding — 1,203,685 shares

3. Retained Earnings

Under the terms (the most restrictive) of the Trust Deed pursuant to which the 6½% Sinking Fund Debentures Series A were issued by Anglo-Canadian Telephone Company, $4,789,000 of the consolidated retained earnings at December 31, 1976 were restricted as to the payment of common dividends.

4. Construction Programs

The telephone subsidiaries' 1977 construction programs as now planned, approximate $366,000,000 for which substantial purchase commitments have been made. These construction programs will be financed by cash available from operations and short-term obligations pending permanent financing.

5. Anti-Inflation Guidelines

The Anti-Inflation Act of 1975 provides for restraints of prices, profits, dividends and employee compensation. The Company and its Canadian subsidiaries are subject to the Act and the attendant regulations. While the Company and its subsidiaries are able to determine that they do not have excess revenues for the years 1976 and 1975, they are not able to determine the effect, if any, on their future business.

Auditors' Report

To the Shareholders of
Anglo-Canadian Telephone Company:

We have examined the consolidated balance sheets and the summary of preferred and preference shares and long-term debt of Anglo-Canadian Telephone Company (a Quebec company) and subsidiaries as of December 31, 1976 and 1975, and the related consolidated statements of income, retained earnings and source of funds used for construction for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Anglo-Canadian Telephone Company and subsidiaries as of December 31, 1976 and 1975, and the results of their operations and the source of their funds used for construction for the years then ended, in accordance with generally accepted accounting principles applied on a consistent basis during the periods.

Arthur Andersen & Co.,
Chartered Accountants.

Montreal, January 28, 1977.

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